520/990

Department of the Treasury
Internal Revenue Service
Catalog Number 15024E

Publication 520

Scholarships and Fellowships

For use in preparing
1990 Returns

Important Information

This publication covers the tax treatment of scholarships and fellowships granted *after* August 16, 1986. For information on grants made *before* August 17, 1986, please contact the Internal Revenue Service.

A summary of the current tax rules follows.

- You must be a candidate for a degree or your scholarship is taxable.
- Only amounts for tuition, fees, books, supplies, and equipment are not taxable. Amounts for other expenses, such as room, board, and travel, are taxable.
- The part of any grant that represents payment for teaching, research, or other services, is taxable.

Introduction

If you receive a scholarship or fellowship, all or part of the amounts you receive or are paid or are allowed on your behalf may be tax-free.

If your scholarship is tax-free, do not include it in income on your tax return. If your only income is a tax-free scholarship, you do not have to file a return. If all, or any part, of your scholarship is not tax-free, it is taxable income to you. See *How To Report*, later.

This publication explains the tax laws as they apply to U.S. citizens and resident aliens who are studying, teaching, or conducting research in the United States or abroad under scholarships and fellowships.

This publication covers the rules for scholarships or fellowships and provides certain other information of interest to students. It includes three examples of completed tax returns for grant recipients who also received other types of income.

Generally, U.S. scholars and teachers abroad have the same tax obligations as their counterparts in the United States. However, special benefits and rules may apply to them. These are discussed later under *Individuals Abroad*.

If you are a nonresident alien scholar or exchange visitor, see Publication 519, *U.S. Tax Guide for Aliens*, or Publication 901, *U.S. Tax Treaties*.

If you receive payments under your employer's educational assistance program, see Publication 525, *Taxable and Nontaxable Income*.

Free Publications and Forms

If you need information on a subject not covered in this publication, please check our other free publications. To order publications and forms, call our toll-free telephone number 1-800-829-FORM (3676) or write the IRS Forms Distribution Center for your area as shown in the income tax package.

What is a Scholarship or Fellowship?

You may be able to treat as tax-free all or part of the amounts you receive as a scholarship or fellowship.

Tax-free scholarship or fellowship amounts cannot be treated as tax-free foreign earned income or foreign housing amounts. For information on these exclusions from income, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

Scholarships

A scholarship is generally an amount paid or allowed to, or for the benefit of, a student at an educational institution to aid in the pursuit of studies. The student may be either an undergraduate or graduate.

Children of faculty members. For education provided to children of faculty members, see *Qualified Tuition Reduction*, later.

An educational institution is one that normally maintains a regular faculty and curriculum and has a regularly enrolled body of students in attendance at the place where it carries on its educational activities.

Cash scholarship prizes won in a contest are not scholarships or fellowships if you are ***not required*** to use the prizes for educational purposes. These prizes are taxable whether or not you actually use the amounts for educational purposes.

Fellowships

A fellowship is generally an amount paid or allowed to, or for the benefit of, an individual to aid in the pursuit of study or research.

General Information

A ***qualified scholarship or fellowship*** grant made after August 16, 1986, is tax-free only if you are a candidate for a degree at an educational institution.

Qualified scholarship or fellowship. A qualified scholarship or fellowship is any amount you receive or is allowed or paid for you, as a scholarship or fellowship that is used under the terms of the grant for:

- Tuition and fees required to enroll in, or to attend, an educational institution, or
- Fees, books, supplies, and equipment that are required for the courses at the educational institution. Scholarship or fellowship amounts that are used for other expenses, such as room and board or travel, are taxable.

Your scholarship or fellowship may still qualify as tax-free even if the terms do not provide that it only be used for tuition and course-related expenses. It will qualify if the expense for tuition and course-related costs is incurred during the grant period. The terms of the grant must not require its use for other purposes or forbid its use for tuition or course-related expenses.

Candidate for a degree. The term candidate for a degree means a student (full or part-time) who:

Attends a primary or secondary school or is pursuing a degree at a college or university, or

Attends an educational institution that is authorized or accredited to provide a program that is acceptable for full credit toward a bachelor's or higher degree, or to provide a program of training to prepare students for gainful employment in a recognized occupation.

Payment for services. You must include in income the part of any scholarship or fellowship, including any tuition reduction, that represents payment for teaching, research, or other services, even if all candidates for a degree are required to perform the services to receive the degree.

Example. On January 7, 1990, you were notified of a scholarship of $2,500 for the spring 1990 semester. As a condition of receiving the scholarship, you must serve as a part-time teaching assistant. Of the $2,500 scholarship, $1,000 represents payment for your services. Assuming that all other conditions are met, $1,500 of your

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grant is tax-free as a qualified scholarship. The $1,000 you received for teaching is taxable.

Federal grants. The tax-free treatment given certain federal grants made before August 17, 1986, has been repealed for grants made after August 16, 1986. These grants made before August 17, 1986, were tax-free even though the grantee was required to perform future service as a federal employee. Now, the grantee must include in income the part of an amount received that represents payment for past, present, or future services that are required as a condition of the grant.

Service academy cadets. An appointment to a United States Military Academy is not a scholarship or fellowship. Payments received as a cadet or midshipman at an armed services academy are pay for personal services and are included in income in the year they are received. Active duty pay is taxable.

Christa McAuliffe Fellowships. A Christa McAuliffe Fellowship received by a teacher before July 1, 1990, and spent according to the terms of the award on an approved school project for the benefit and use of a school or school system will be considered as an award to the school. It will not be taxable to the teacher. However, any amount kept or used directly or indirectly for the teacher's personal benefit, such as for a sabbatical trip or as pay for services in connection with the project, is taxable.

Student loans. Although a student educational loan is usually not a scholarship, it is generally tax-free.

If your loan was forgiven, you are generally considered to have received taxable income equal to the amount forgiven in that year. However, special rules provide for the exclusion from income of certain forgiven student loans. See the discussion under *Cancellation of Student Loan Debt*, later.

Estimated tax. You may have to pay estimated tax on all or part of your scholarship or fellowship. See *Estimated Tax*, later in this publication.

Does Your Grant Qualify?

If there is some doubt about whether your grant qualifies as a scholarship or fellowship, you should first consult the grantor. The grantor may have received advice from the IRS about the appropriate tax treatment of the grant. You may also contact the District Director of Internal Revenue for the district in which you live. Be sure to ask for the information as soon as possible, so that you can receive an answer in time to file your return. If you request this advice by mail, give a complete statement of all the facts.

If your grant does not qualify as a scholarship or fellowship, you must include the grant in gross income. You can deduct related expenses that are ordinary and necessary business expenses.

Deductible educational expenses. If your grant qualifies as a nontaxable scholarship or fellowship, you must reduce your deductible educational expenses by the amount of the grant you receive for the educational expenses. Your educational expenses, such as tuition, fees, books, and supplies, are ordinarily deductible if they are to maintain or improve skills required in your present work, or to retain your job or rate of pay. For more information on deductible educational expenses, see Publication 508, *Educational Expenses*.

Qualified Tuition Reduction

A qualified tuition reduction is tax-free unless it represents payment for services by the student.

The term ***qualified tuition reduction*** means the amount of reduction in tuition allowed or provided to an employee of an educational institution for the education of an employee (or any person treated as an employee or whose use is treated as an employee use) by any educational institution. The tuition must be for education below the graduate level.

This exclusion may not always apply to officers, owners, or highly compensated employees. It will apply if the tuition reduction benefits are available on substantially the same basis to each member of a group of employees, defined under a reasonable classification set up by the employer, that does not discriminate in favor of owners, officers, or highly compensated employees.

The following individuals are treated as being employees, or their use is treated as an employee use:

1) A current employee,
2) A former employee who retired or left on disability,
3) A widow or widower of an individual who died while an employee,
4) A widow or widower of a former employee who retired or left on disability, or
5) A dependent child or spouse of any person listed in (1) through (4), above.

If both parents have died, and if one of the parents qualified as an employee under (1) through (4) above, their child, if under age 25, can exclude the reduction from income.

A dependent child of divorced parents is treated as the dependent of both parents.

Graduate education. This tax-free treatment also applies to graduate students of certain educational institutions who perform teaching or research activities for that institution. The qualified tuition reduction must be for education furnished by that institution, and not represent payment for services.

Individuals Abroad

For the most part, U.S. scholars and teachers abroad are taxed on their worldwide income, but certain special rules apply.

Teaching or Lecturing Abroad Under Taxable Grants

Foreign earned income exclusion. Generally, a grant you receive for teaching or lecturing abroad is payment for services and is subject to U.S. income tax. This includes cash reimbursement for transportation expenses and the value of transportation furnished in kind. However, if your ***tax home*** is in a foreign country, and you are (1) a U.S. citizen and a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year, or (2) a U.S. citizen or a U.S. resident alien and are physically present in a foreign country or countries for at least 330 full days in 12 consecutive months, you may be entitled to exclude your foreign earned income up to $70,000. In addition, you may qualify to exclude or deduct a foreign housing amount.

Tax home. Generally, your tax home is the general area of your regular or principal place of business. If you are ***temporarily*** absent from your tax home in the United States on business, expenses for travel, meals, and lodging (away-from-home expenses) may be deductible, but you cannot exclude your foreign earned income. If your new work assignment is for an ***indefinite*** period, your new place of employment may be your tax home, and no expenses in the general area of your new work assignment are deductible.

Expected or actual employment at the new location of 2 years or more is considered indefinite regardless of other facts and circumstances. If you expect employment to last for less than one year, whether your new work assignment is temporary or indefinite depends on all the facts and circumstances.

If your employment is expected to last, and does last, for one year or more, it is presumed to be indefinite. However, this presumption can be overcome and the job assignment may be treated as temporary by showing that you realistically expected the job to last, and it does last, less than 2 years, and that you would return to your U.S. home after the job ended. Also, you must show that your U.S. home is really your regular place of abode.

Three questions are important in showing that your U.S. home is your regular place of abode. These questions are:

Did you use your home in the U.S. as a residence while you worked at your job in the U.S. just before going abroad to your new job, and did you continue to maintain work contacts (job seeking, leave of absence, ongoing business, etc.) in that area in the U.S. during the time you worked abroad?

Are your living expenses duplicated at the U.S. and foreign homes because your work requires you to be away from your U.S. home?

Do you have a family member or members continuing to live at your U.S. home, or do you frequently use your U.S. home for lodging during the period you work abroad?

If you cannot answer "yes" to at least two of these three questions, you will be considered indefinitely assigned to the new location abroad. Therefore, since your tax home is abroad, none of your expenses for travel, meals, or lodging while you are there are deductible. However, you may be able to exclude your grant from income under the foreign earned income exclusion rules.

If you realistically expect your job to last, and it does last, less than 2 years and that you will return to your U.S. home, and you can answer "yes" to all three questions, you are considered temporarily away from home. You do not qualify for the foreign earned income exclusion, but you may be able to deduct away-from-home expenses.

If you can answer "yes" to at least two of the questions, with the same expectation of the duration of the job and of your return to your U.S. home, consider all of your facts and circumstances to decide if you are temporarily or indefinitely away from home.

For more information on the foreign earned income exclusion and the foreign housing exclusion and deduction, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad*.

Expenses in connection with the grant. If your grant for lecturing or teaching abroad is ***wholly*** taxable, the related expenses you incur may be deductible if they qualify as ordinary and necessary business expenses. If you are a professor or teacher regularly employed by an educational institution in the United States, and are temporarily absent from the school to teach or lecture abroad, you generally may deduct the actual cost of all ordinary and necessary traveling expenses while away from your tax home, including meals and lodging for the duration of the stay. Your deduction for meals generally is limited to 80% of the cost.

These deductions apply only to your own expenses and not to any expenses for any person who may accompany you. For a complete discussion of travel expenses, see Publication 463, *Travel, Entertainment, and Gift Expenses*.

In addition, your grant may qualify for exemption from the tax of the foreign country under its laws or a tax treaty. For tax treaty provisions, see Publication 901, *U.S. Tax Treaties*.

Studying or Teaching Under Fulbright Grants

If you are a lecturer, teacher, research scholar, or student who receives a grant under the Mutual Educational and Cultural Exchange Act of 1961, known as the Fulbright-Hays Act, you will probably encounter tax situations different from those discussed earlier in this publication. The grant may be excludable as foreign earned income (discussed earlier) or under the terms of a tax treaty.

If you receive a supplemental grant under the U.S. Information and Educational Exchange Act of 1948 (Smith-Mundt Act) for study, research, or teaching abroad, the grant is treated like a Fulbright grant.

Caution: These programs generally are subject to the same rules as other grants.

Students and researchers. If you receive a Fulbright grant for study or research granted after August 16, 1986, the grant will probably not meet the requirement of being for tuition and course-related expenses at an educational institution created or organized in, or under a law of, the U.S. or its possessions.

Professors and teachers. If you receive a Fulbright grant for ***lecturing or teaching,*** it is payment for services and is subject to U.S. income tax. This also includes cash reimbursement for transportation and the value of transportation provided in kind by the government.

If your Fulbright grant is paid by an agency of the U.S. Government, you may be able to exclude your grant from income under the provisions of the law concerning "bona fide residence" or "physical presence" in a foreign country, provided you are ***not*** a U.S. Government employee. See *Foreign earned income exclusion*, earlier. The grant may qualify for exemption from the foreign country's tax under its laws or under a tax treaty. See *Payment of Foreign Taxes*, later.

You may be entitled to the foreign earned income exclusion if your tax home is in a foreign country, and you are either:

- A U.S. citizen and a bona fide resident of a foreign country or countries for a period that includes an entire tax year, or
- You are a U.S. citizen or U.S. resident alien and are physically present in a foreign country or countries for 330 full days in 12 consecutive months.

See *Foreign earned income exclusion* and *Tax home*, earlier, under *Teaching or Lecturing Abroad Under Taxable Grants*.

Payment of Foreign Taxes

The United States has income tax treaties with certain countries under which the citizens and residents of the United States are exempt from foreign income taxes on certain amounts received while they are temporarily in a treaty country. The kinds of income with which you are likely to be concerned and which are exempt by the treaties are:

- Certain pay for personal services performed by a U.S. citizen or resident temporarily present in a treaty country,
- Wages of U.S. professors, teachers, and researchers who teach or do research in a treaty country, and
- Certain remittances, grants, allowances, and awards received by U.S. students, apprentices, and trainees who are studying abroad in a treaty country.

For more information on these tax treaty provisions, see Publication 901. Although the discussions in Publication 901 are in terms of foreign nationals receiving income from U.S. sources, most treaty provisions are reciprocal and apply equally to U.S. citizens or residents deriving income from foreign sources.

Payment of U.S. Income Tax

All income reported on a U.S. federal income tax return must be expressed in terms of U.S. dollars. If part or all of your income is in foreign currency, you must report this income in U.S. dollars at the rates of exchange in effect at the time the income is actually or constructively received. You should use the rate that most nearly reflects the value of the foreign currency—the official rate, the open market rate, or any other appropriate rate. You must be able to justify the rate you use.

The foreign income must be reported in U.S. dollars and any income tax due on it must be paid with U.S. dollars. This rule does not apply to nonconvertible currency from a Fulbright grant.

Nonconvertible foreign currency (blocked income). There may be cases in which a scholarship or fellowship grant is made in a foreign currency that is not convertible to U.S. dollars or to other money or property that is convertible to U.S. dollars because of:

- Restrictions imposed by the foreign country,
- An agreement with the United States, or
- The terms and conditions of the U.S. Government grant.

This nonconvertible income is commonly referred to as ***blocked*** or ***deferrable income.*** There are two ways to report it:

- Report the income and pay your federal income tax with U.S. dollars that you have in the United States or in some other country, or
- Defer reporting the income until it becomes unblocked.

If you choose to defer reporting the income, you must file with your federal income tax return an information return on a separate Form 1040 labeled "Report of Deferrable Foreign Income, pursuant to Rev. Rul. 74–351." You must declare on the information return that the deferrable income will be included in your gross income in the year that it is no longer deferrable. You also must state that you give up any right to claim that any part of the deferrable income was includible in income for any earlier year.

All amounts reported on the information return must be reported in the foreign currency involved. If you have blocked income from more than one foreign country, include a separate information return for each country.

Income becomes unblocked and reportable for tax purposes when it becomes convertible, or when it is converted, into dollars or into other money or property that is convertible into U.S. dollars. Also, if you use blocked income for your nondeductible personal expenses, or dispose of it by gift, bequest, or devise, you must treat it as unblocked and reportable.

Credit for foreign taxes paid. If income taxes are imposed on you by a foreign country, you may be entitled to take either a tax credit or a tax deduction on your U.S. income tax return. Usually, it is to your advantage to claim the credit, which you subtract directly from your U.S. tax liability. For a detailed discussion of foreign tax credits, see Publication 514, *Foreign Tax Credit for Individuals*.

Payment of tax by Fulbright grantees. As explained earlier, all income must be reported in U.S. dollars. In most cases, the tax must also be paid in U.S. dollars. If, however, at least 70% of your entire Fulbright grant has been paid in nonconvertible foreign currency (blocked income), you may use the currency of the host country to pay the U.S. tax on that income. You can use foreign currency to pay your U.S. tax, but only the part that is attributable to the foreign currency payments you received under the grant.

To qualify for this method of payment, you must submit a statement in which you say:

- You were a Fulbright grantee and were paid in nonconvertible foreign currency.
- At least 70% of the grant was paid in nonconvertible foreign currency.

This statement must disclose the total grant you received during the year and the amount you received in nonconvertible foreign currency. The statement must be certified by the U.S. educational foundation or commission paying the grant, or other person having control of grant payments to you.

You should prepare at least two copies of this statement. Under ordinary circumstances, a copy is required:

- To be attached to your Form 1040, *U.S. Individual Income Tax Return*, and
- To be kept for identification purposes each time a tax deposit of nonconvertible foreign currency is made.

Estimated tax payments. You may have to make estimated tax payments during 1991. See *Estimated Tax*, later.

When figuring your estimated tax liability, do not include amounts you receive that are excluded from your income.

Figuring estimated tax on nonconvertible foreign currency. If the host country does not require you to pay an income tax on your grant, you figure the estimated tax that may be paid to IRS in the nonconvertible foreign currency by the following formula:

$$\frac{\text{Estimated adjusted gross income to be received in nonconvertible foreign currency}}{\text{Estimated entire adjusted gross income}} \times \text{Total estimated U.S. tax} = \text{Part of estimated tax attributable to amounts received in nonconvertible foreign currency}$$

If you must pay your host country an income tax on your grant, you must subtract any estimated foreign tax credit attributable to your grant from the part of estimated tax attributable to amounts received in nonconvertible foreign currency. You probably will not have "blocked income." If you do, you may want to see the regulations under Internal Revenue Code section 6316 for more information and examples.

Deposit of foreign currency with disbursing officer. After you have determined the part of your estimated tax that may be paid in nonconvertible foreign currency, that amount may be deposited in the foreign currency with the disbursing officer of the Department of State in the foreign country in which the foundation or commission paying the grant is located. You may either deposit the full amount before the first installment due date, or make four equal deposits before the installment due dates of April 15, June 15, September 15, and January 15. If any of these dates falls on a Saturday, Sunday, or legal holiday, the due date is the following business day.

If you first find that you will be liable for estimated tax after March 31 and before June 1, your first payment will be due by June 15. If you find that you will be liable after May 31 and before September 1, the first due date will be September 15. In each case, you may either deposit the full

amount of your estimated tax by the first installment due date, or make deposits over the remaining quarterly due dates. If you first find that you will be liable after August 31, your entire estimated tax is due by the following January 15. If you file your income tax return by January 31, and pay the tax you owe, you are not required to make the January 15 payment.

Upon accepting the currency, the disbursing officer will give you a receipt in duplicate. The original of this receipt (showing the amount of foreign currency deposited and its equivalent in U.S. dollars) should be attached to your next payment of estimated tax. Mail the return to the Internal Revenue Service Center, Philadelphia, PA 19255, U.S.A., allowing enough time for it to be received by the due date for the payment of estimated tax.

Figuring U.S. income tax. When you prepare your income tax return, tax may be due or the entire liability may have been satisfied with your estimated tax payments. If tax is due, figure the part that may be paid with nonconvertible foreign currency by following the same formula used to figure your estimated tax with both of these adaptations:

- Substitute actual amounts for estimated amounts, and
- Subtract estimated tax payments from the part of your actual tax payable in nonconvertible foreign currency.

Cancellation of Student Loan Debt

You do not have income if your indebtedness under certain student loans is cancelled as a result of your working for a period of time in certain professions for a broad class of employers. To qualify, the loan must have been given by the government (federal, state, or local), or by an educational organization under an agreement with the government (federal, state, or local), or a public benefit corporation (described next), or with an exempt public benefit corporation that has assumed control over a state, county, or municipal hospital, and whose employees are considered public employees under state law.

Cancellations of student loans under section 465 of the Higher Education Act of 1965 are not income.

Example. Bob Rose received $10,000 under a medical educational loan program. Under the terms of the program, one-fifth of the loan is cancelled for each year he practices medicine in a nonprofit state hospital. Thus, one-fifth of the $10,000, or $2,000, is cancelled for each year of practice in the qualifying hospital. He does not include these amounts in income.

Student as Dependent

Special rules apply concerning your status as a dependent claimed on another person's tax return.

Exemption for a student dependent. Generally, an exemption for a dependent cannot be taken if the dependent had gross income of $2,050 or more for the year. This rule does not apply, however, if the dependent is a full-time student who is under age 24 at the end of the year. (The other dependency tests still apply.) If you cannot be claimed as a dependent because of this rule, you can claim an exemption on your own return.

Your standard deduction. If you can be claimed as a dependent on another person's return, the standard deduction on your own return is generally limited to the greater of (a) $500 or (b) your ***earned income*** for the year (but generally not more than $3,250). If you are 65 or older or blind, your standard deduction may be higher.

Your ***earned income*** for this purpose is salaries, wages, professional fees and other amounts received as pay for work you actually perform, including the amount of any scholarship or fellowship grant representing payment for teaching, research, or other services. It also includes the taxable part of any noncompensatory scholarship or fellowship grant you receive, such as a scholarship for room and board. It does not include such items as interest, dividends, and capital gains.

For more information see Publication 501, *Exemptions, Standard Deduction, and Filing Information.*

When To File

The due date for filing your return is April 15, 1991.

Extensions of time to file. There are several exceptions to the filing deadline.

Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return.* You may get an automatic 4–month extension of time to file your tax return by filing Form 4868. This 4–month extension is not in addition to the automatic extension until June 15, discussed later. You must file Form 4868 by the due date for filing your return, including the automatic extension until June 15, if applicable. In filing out Form 4868, you must make a tentative estimate of your tax for the year and pay in full any tax due with the application.

Any payment you made with the application for extension should be entered on Form 1040 or Form 1040A. You may not choose to have the IRS figure your tax if you use the extension of time to file.

If you underestimated the actual amount you owe, you will be charged interest on the unpaid amount.

Form 2688, *Application for Additional Extension of Time To File U.S. Individual Income Tax Return.* Further extensions of the time to file, or any extension of the time to pay any tax due, are granted only under very unusual circumstances. If you need additional time to file, apply for the extension either in a letter or by filing Form 2688. Extensions beyond the 4–month automatic extension are not granted automatically. You must show reasonable cause.

Except in undue hardship cases, an application for extension on Form 2688 will not be accepted until you have taken advantage of the automatic 4–month extension using Form 4868.

Federal tax returns mailed by taxpayers are filed on time if they bear an official postmark dated no later than midnight of the due date, including any extensions.

Automatic extension until June 15. If you are a U.S. citizen or resident, you may qualify for an automatic extension of time until June 15 to file your return and pay any tax due if you meet one of the following conditions:

- Both your tax home and your abode are outside the United States and Puerto Rico.
- You are in military service on duty outside the United States and Puerto Rico on the due date of the return.

You must attach a statement to your return showing that you met the requirements. You must pay interest on any unpaid tax from the due date (April 15) up to the date you pay the tax.

If you and your spouse file a joint return, only one of you needs to meet the requirements on April 15 to take advantage of the automatic extension to June 15 for filing your tax return. You are treated as if you both met the requirements for the automatic extension.

If you do not file a joint return and choose, instead, to file separate returns, only the spouse who met the requirements on April 15 qualifies for the automatic extension.

Form 2350, *Application for Extension of Time to File U.S. Income Tax Return.* If you expect to receive a refund or owe no tax because you will qualify, on a date more than 2 months after the due date of your return, for an exclusion of income earned in a foreign country or of your foreign housing amount, you may want to get a further extension of time to file your income tax return. You may apply for the extension by sending Form 2350, in duplicate, to the Internal Revenue Service Center, Philadelphia, PA 19255. You may also mail or deliver Form 2350 directly to your local IRS representative or other IRS employee. You must file Form 2350 on or before the due date for filing your return. The due date is April 15 (June 15 if both your tax home and abode are outside the United States and Puerto Rico on April 15). You will receive an extension until after you qualify for these exclusions.

For further information on the exclusion of income earned in a foreign country, or of your foreign housing amount, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad.*

Where To File

If you are living in the United States, you should send your return to the appropriate Internal Revenue Service Center for the state in which you are located. See the addresses in the instructions to your federal tax return.

Individuals living abroad. If you are studying or teaching abroad under a grant, you should send your return and estimated tax payments to the Internal Revenue Service Center, Philadelphia, PA 19255 U.S.A.

Fulbright grantees. If you pay your U.S. income tax with nonconvertible foreign currency, you must file your return with the Internal Revenue Service Center, Philadelphia, PA 19255 U.S.A. You ***must*** attach all of the following to the return:

- A copy of the certified statement discussed earlier under *Payment of tax by Fulbright grantees,*
- A detailed statement showing the allocation of tax attributable to amounts received in foreign currency, and
- The rates of exchange used in determining your tax liability in U.S. dollars.

If tax due is attributable to amounts received in nonconvertible foreign currency, you may deposit the rest in nonconvertible foreign currency with a disbursing officer of the Department of State according to the procedures discussed for paying estimated tax. You should attach the original receipt to your tax return.

For more information about filing requirements while abroad, see Publication 54, *Tax Guide for U.S. Citizens and Resident Aliens Abroad.*

If you are overseas, you can get the forms and publications discussed earlier, as well as assistance in preparing the forms, at IRS offices in: Bonn, Germany; Caracas, Venezuela; Riyadh, Saudi Arabia; London, England; Manila, Philippines; Mexico City, Mexico; Nassau, Bahamas; Ottawa, Canada; Paris, France; Rome, Italy; São Paulo, Brazil; Singapore; Sydney, Australia; Tokyo, Japan. The offices generally are located in the U.S. embassies or consulates in these cities.

For more information on filing requirements, see the instructions to Form 1040, 1040A, or 1040EZ.

How To Report

If your grant is tax-free, it does not have to be reported on an income tax return. If all or part of your grant is taxable, the taxable amount must be reported as explained below. (Part of your grant may be taxable even if you did not receive a Form W–2.)

Form 1040EZ. Add the taxable amount to any other amounts on line 1.

Form 1040 or 1040A. Include the taxable amount on line 7. Then write "SCH" and the taxable amount not reported on a Form W–2 on Form 1040, on the dotted line next to line 7, or, for Form 1040A, in the space to the left of line 7.

Estimated Tax

The grantor of a scholarship or fellowship does not withhold tax unless the grant represents payment for services. Grants representing payment for services are treated as wages for withholding purposes that the grantor must report on a Form W–2.

If the grantor of a scholarship or fellowship does not withhold tax, or withholds insufficient tax, on the taxable part of your scholarship or fellowship grant, you may be liable for the payment of estimated tax.

Your estimated tax is the total of your expected tax for 1991 minus your expected withholding and credits.

Who should make estimated tax payments? Generally, you must make estimated tax payments if your estimated tax liability for 1991 will be $500 or more, and you estimate that the tax withheld and your credits will be less than the lesser of:

1) 90% of the tax to be shown on your 1991 income tax return, or
2) 100% of the tax shown on your 1990 income tax return (if the return covered all 12 months).

For this purpose, the year is divided into four payment periods. Each period has a specific due date. If you have income subject to estimated tax during the first payment period, you must make your first payment by April 15. You may pay all your estimated tax at that time, or you may pay it in four installments, the first by April 15 and the remaining installments by the due dates for later periods. If any of the due dates falls on a Saturday, Sunday, or legal holiday, the due date is the following business day.

Penalty. If you do not pay enough of your estimated tax in each payment period, you may have to pay a penalty. You will not have to pay a penalty if you had no tax liability last year and you were a U.S. citizen or resident for the whole year. For this rule to apply, your prior tax year must have included all 12 months of the year.

For more information on estimated tax payments, see Publication 505, *Tax Withholding and Estimated Tax.*

Examples

The following examples illustrate completed tax returns for grant recipients who also received wages and other income. The first two examples show completed Forms 1040EZ. The last example illustrates a completed Form 1040A.

Example 1. On June 5, 1989, Ed Fellows was notified that he was granted a scholarship to attend a local university. The scholarship will pay for all tuition, fees, course-related expenses, and room and board. Ed received a total of $8,500 from the grant in 1990. $2,000 of this was for room and board. Ed was 19 years old and lived with his parents when not away at college.

During the summer, Ed worked at the local supermarket and earned $2,200. His federal income tax withheld was $250. Ed received $25 interest income from a savings account in 1990. He had no other income for the year.

Ed completes Form 1040EZ for 1990 as shown.

Example 2. On June 9, 1988, Barbara Book was awarded a scholarship at Bright College. The scholarship pays a fixed sum of $5,000 per year, $1,500 of which is for room and board. Barbara worked briefly between semesters earning $610. She had no federal income tax withheld. Her parents can still claim her as a dependent. Barbara received $30 interest on her savings. She had no other income in 1990.

Barbara completes Form 1040EZ for 1990 as shown.

Example 3. Bill Schuyler was awarded a scholarship that paid $9,000 towards Bill's expenses at Union University in 1990. Room and board was $2,500. Bill spent $500 on a word processor. The remaining $6,000 was spent on tuition, fees, books, and supplies. Bill cannot be claimed as a dependent by his parents or anyone else.

Bill supports himself by working evenings and during the summer. His evening job paid him $6,400 and he had $950 federal income tax withheld. During the summer, Bill earned $5,100 and had $750 federal income tax withheld.

Bill received $42 interest on his savings. He also received $220 dividend income from stock that his grandparents gave him.

Bill can file Form 1040A. He cannot file Form 1040EZ because dividend income cannot be reported on that form.

Bill completes Form 1040A for 1990 as shown.

Department of the Treasury - Internal Revenue Service

Form **1040EZ**

Income Tax Return for Single Filers With No Dependents 1990

OMB No. 1545-0675

Name & address

Use IRS label (see page 8). If you don't have one, please print.

LABEL HERE

Print your name (first, initial, last): Edward M. Fellows

Home address (number and street). (If you have a P.O. box, see page 9.) 2619 Elm St. Apt. no.

City, town or post office, state, and ZIP code. (If you have a foreign address, see page 9.) Homesville, VA 22002

Please print your numbers like this: 9 8 7 6 5 4 3 2 1 0

Your social security number: 123 00 4567

See the back. Also, see the Form 1040EZ booklet.

Presidential Election Campaign (see page 9) Do you want $1 to go to this fund? Note: Checking "Yes" will not change your tax or reduce your refund. ▶

Yes	No	Dollars	Cents
☑	☐		

Report your income

Attach Copy B of Form(s) W-2 here. Attach tax payment on top of Form(s) W-2.

		Dollars	Cents
1	Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).)	14,000	00
2	Taxable interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ.	25	00
3	Add line 1 and line 2. This is your **adjusted gross income.**	14,025	00
4	Can your parents (or someone else) claim you on their return? ☑ **Yes.** Do worksheet on back; enter amount from line E here. ☐ **No.** Enter 5,300.00. This is the total of your standard deduction and personal exemption.	3,250	00
5	Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your **taxable income.**	10,775	00

Note: You must check Yes or No.

Figure your tax

6	Enter your Federal income tax withheld from Box 9 of your W-2 form(s).	1,250	00
7	**Tax.** Use the amount on **line 5** to find your tax in the tax table on pages 14-16 of the booklet. Enter the tax from the table on this line.	1,148	00

Refund or amount you owe

8	If line 6 is larger than line 7, subtract line 7 from line 6. This is your **refund.**	102	00
9	If line 7 is larger than line 6, subtract line 6 from line 7. This is the **amount you owe.** Attach your payment for full amount payable to "Internal Revenue Service." Write your name, address, social security number, daytime phone number, and "1990 Form 1040EZ" on it.		

Sign your return

(Keep a copy of this form for your records.)

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Your signature — Date

X Edward M Fellows 2/3/91

For IRS Use Only—Please do not write in boxes below.

Use this form if

- Your filing status is single.
- You do not claim any dependents.
- You were under 65 and not blind at the end of 1990.
- Your taxable income (line 5) is less than $50,000.
- You had **only** wages, salaries, tips, and taxable scholarships or fellowships, and your taxable interest income was $400 or less. ***Caution:*** *If you earned tips (including allocated tips) that are not included in Box 13 of your W-2, you may not be able to use Form 1040EZ. See page 10 in the booklet.*

If you are not sure about your filing status or dependents, see page 4 in the booklet.

If you can't use this form, see **Tele-Tax** *(topic no. 152)* on page 23 in the booklet.

Completing your return

Please print your numbers inside the boxes. Do not type your numbers. Do not use dollar signs.

Most people can fill out the form simply by following the instructions on the front. But you will have to use the booklet if you received a scholarship or fellowship or tax-exempt interest (such as on municipal bonds). Also use the booklet if you received a 1099-INT showing income tax withheld (backup withholding) or if you had two or more employers and your total wages were more than $51,300.

Remember, you must report your wages, salaries, and tips even if you don't get a W-2 form from your employer. You must also report all your taxable interest income from savings accounts at banks, savings and loans, credit unions, etc., even if you don't get a Form 1099-INT.

Standard deduction worksheet for dependents who checked "Yes" on line 4.

If you checked "Yes" because someone can claim you as a dependent, fill in this worksheet to figure the amount to enter on line 4.

A. Enter the amount from line 1 on front.	A.	4,200.00
B. Minimum amount.	B.	500.00
C. Compare the amounts on lines A and B above. Enter the LARGER of the two amounts here.	C.	4,200.00
D. Maximum amount.	D.	3,250.00
E. Compare the amounts on lines C and D above. Enter the SMALLER of the two amounts here and on line 4 on front.	E.	3,250.00

If you checked "No" because no one can claim you as a dependent, enter 5,300.00 on line 4. This is the total of your standard deduction (3,250.00) and personal exemption (2,050.00).

Avoid common mistakes

This checklist is to help you make sure that your form is filled out correctly.

1. Are your name and address correct on the label? If not, did you correct the label?
2. Is your social security number correct?
3. Did you attach your W-2 form(s) to the left margin of your return?
4. Did you add and subtract correctly?
5. If someone (such as your parent) can claim you as a dependent on his or her tax return, did you check the "Yes" box on line 4 and fill out the worksheet above?
6. Did you enter an amount on line 4?
7. Did you use the amount from **line 5** to find your tax in the tax table?
8. Did you sign and date your return? If you paid someone to prepare your return, did that person sign it and show other information? See page 13 in the booklet.

Mailing your return

Mail your return by **April 15, 1991.** Use the envelope that came with your booklet. If you don't have that envelope, see page 17 in the booklet for the address to use.

Department of the Treasury - Internal Revenue Service

Form **1040EZ**

Income Tax Return for Single Filers With No Dependents

1990

OMB No. 1545-0675

Name & address

Use IRS label (see page 9). If you don't have one, please print.

LABEL HERE

Print your name (first, initial, last): Barbara M. Book

Home address (number and street). (If you have a P.O. box, see page 9.): 47 Denton Ave. Apt. no.:

City, town or post office, state, and ZIP code. (If you have a foreign address, see page 9.): Hillside, PA 19876

Please print your numbers like this: 9 8 7 6 5 4 3 2 1 0

Your social security number: 654 00 3211

Please see instructions on the back. Also, see the Form 1040EZ booklet.

Presidential Election Campaign (see page 9) Do you want $1 to go to this fund? Note: *Checking "Yes" will not change your tax or reduce your refund.* ▶ Yes [✓] No [ ]

		Dollars	Cents
Report your income			
Attach Copy B of Form(s) W-2 here. Attach tax payment on top of Form(s) W-2.	1 Total wages, salaries, and tips. This should be shown in Box 10 of your W-2 form(s). (Attach your W-2 form(s).) 1	2,110	.00
	2 Taxable interest income of $400 or less. If the total is more than $400, you cannot use Form 1040EZ. 2	30	.00
	3 Add line 1 and line 2. This is your **adjusted gross income.** 3	2,140	.00
Note: You must check Yes or No.	4 Can your parents (or someone else) claim you on their return? [✓] **Yes.** Do worksheet on back; enter amount from line E here. [ ] **No.** Enter 5,300.00. This is the total of your standard deduction and personal exemption. 4	2,110	.00
	5 Subtract line 4 from line 3. If line 4 is larger than line 3, enter 0. This is your **taxable income.** 5	30	.00
Figure your tax	6 Enter your Federal income tax withheld from Box 9 of your W-2 form(s). 6		
	7 **Tax.** Use the amount on **line 5** to find your tax in the tax table on pages 14-16 of the booklet. Enter the tax from the table on this line. 7	6	.00
Refund or amount you owe	8 If line 6 is larger than line 7, subtract line 7 from line 6. This is your **refund.** 8		
	9 If line 7 is larger than line 6, subtract line 6 from line 7. This is the **amount you owe.** Attach your payment for full amount payable to "Internal Revenue Service." Write your name, address, social security number, daytime phone number, and "1990 Form 1040EZ" on it. 9	6	.00

Sign your return

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is true, correct, and complete.

Keep a copy of this form for your records.

Your signature: x Barbara M. Book Date: 2-8-91

For IRS Use Only—Please do not write in boxes below.

For Privacy Act and Paperwork Reduction Act Notice, see page 4 in the booklet. Form 1040EZ (1990)

Use this form if

- Your filing status is single.
- You do not claim any dependents.
- You were under 65 and not blind at the end of 1990.
- Your taxable income (line 5) is less than $50,000.
- You had **only** wages, salaries, tips, and taxable scholarships or fellowships, and your taxable interest income was $400 or less. ***Caution:*** *If you earned tips (including allocated tips) that are not included in Box 13 of your W-2, you may not be able to use Form 1040EZ. See page 10 in the booklet.*

If you are not sure about your filing status, see page 5 in the booklet. If you have questions about dependents, see Tele-Tax *(topic no. 155)* on page 23 in the booklet.

If you can't use this form, see Tele-Tax *(topic no. 152)* on page 23 in the booklet.

Completing your return

Please print your numbers inside the boxes. Do not type your numbers. Do not use dollar signs.

Most people can fill out the form simply by following the instructions on the front. But you will have to use the booklet if you received a scholarship or fellowship or tax-exempt interest income (such as on municipal bonds). Also use the booklet if you received a 1099-INT showing income tax withheld (backup withholding) or if you had two or more employers and your total wages were more than $51,300.

Remember, you must report your wages, salaries, and tips even if you don't get a W-2 form from your employer. You must also report all your taxable interest income, including interest from savings accounts at banks, savings and loans, credit unions, etc., even if you don't get a Form 1099-INT.

If you paid someone to prepare your return, that person must also sign it and show other information. See page 13 in the booklet.

Standard deduction worksheet for dependents who checked "Yes" on line 4

If you checked "Yes" because someone can claim you as a dependent, fill in this worksheet to figure the amount to enter on line 4.

A.	Enter the amount from line 1 on front.	A. 2,110.00
B.	Minimum amount.	B. 500.00
C.	**Compare** the amounts on lines A and B above. Enter the LARGER of the two amounts here.	C. 2,110.00
D.	Maximum amount.	D. 3,250.00
E.	**Compare** the amounts on lines C and D above. Enter the SMALLER of the two amounts here and on line 4 on front.	E. 2,110.00

If you checked "No" because no one can claim you as a dependent, enter 5,300.00 on line 4. This is the total of your standard deduction (3,250.00) and personal exemption (2,050.00).

Avoid common mistakes

This checklist is to help you make sure that your form is filled out correctly.

1. Are your name, address, and social security number on the label correct? If not, did you correct the label?
2. If you didn't get a label, did you enter your name, address (including ZIP code), and social security number in the spaces provided on page 1 of Form 1040EZ?
3. Did you check your computations (additions, subtractions, etc.) especially when figuring your refund or amount you owe?
4. If your parent (or someone else) can claim you as a dependent on his or her tax return, did you check the "Yes" box on line 4?
5. If you checked the "Yes" box on line 4, did you fill out the worksheet above to figure the amount to enter on line 4? If you checked the "No" box, did you enter 5,300.00 on line 4?
6. Did you use the amount from **line 5** to find your tax in the tax table? Did you enter the correct tax on line 7?
7. Did you attach your W-2 form(s) to the left margin of your return?
8. Did you sign and date Form 1040EZ?

Mailing your return

Mail your return by **April 15, 1991.** Use the envelope that came with your booklet. If you don't have that envelope, see page 17 in the booklet for the address to use.

Form **1040A**

Department of the Treasury – Internal Revenue Service

U.S. Individual Income Tax Return 1990

OMB No. 1545-0085

Step 1 Label

(See page 14.)

Use IRS label. Otherwise, please print or type.

LABEL HERE

Your first name and initial: William R.
Last name: Schuyler
Your social security no.: 135 00 7913

If a joint return, spouse's first name and initial:
Last name:
Spouse's social security no.:

Home address (number and street). (If you have a P.O. box, see page 14.): 123 School St.
Apt. no.:

City, town or post office, state, and ZIP code. (If you have a foreign address, see page 14.): Union, NY 11234

For Privacy Act and Paperwork Reduction Act Notice, see page 3.

Presidential Election Campaign Fund (see page 15)

Do you want $1 to go to this fund? ☑ Yes ☐ No
If joint return, does your spouse want $1 to go to this fund? ☐ Yes ☐ No

Note: *Checking "Yes" will not change your tax or reduce your refund.*

Step 2 Check your filing status

(Check only one.)

1 ☑ Single. (See page 16 to find out if you can file as head of household.)
2 ☐ Married filing joint return (even if only one had income)
3 ☐ Married filing separate return. Enter spouse's social security number above and spouse's full name here ▶
4 ☐ Head of household (with qualifying person). (See page 16.) If the qualifying person is your child but not your dependent, enter this child's name here ▶
5 ☐ Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 17.)

Step 3 Figure your exemptions

(See page 17.)

6a ☑ **Yourself** If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 18b on page 2.
6b ☐ **Spouse**

No. of boxes checked on 6a and 6b: 1

c Dependents: 1. Name (first, initial, and last name)	2. Check if under age 2	3. If age 2 or older, dependent's social security number	4. Dependent's relationship to you	5. No. of months lived in your home in 1990

If more than 7 dependents, see page 20.

No. of your children on 6c who:
- lived with you
- didn't live with you due to divorce or separation (see page 21)

No. of other dependents listed on 6c

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ ☐
e Total number of exemptions claimed. Add numbers entered on lines above: 1

Step 4 Figure your total income

Attach Copy B of your Forms W-2 and W-2P here.

Attach check or money order on top of any Forms W-2 or W-2P.

7 Wages, salaries, tips, etc. This should be shown in Box 10 of your W-2 form(s). (Attach Form(s) W-2.) SCH 3,000 — 7: 14,500
8a Taxable interest income (see page 23). (If over $400, also complete and attach Schedule 1, Part I.) — 8a: 42
b Tax-exempt interest. (DO NOT include on line 8a.) 8b
9 Dividends. (If over $400, also complete and attach Schedule 1, Part II.) — 9: 220
10a Total IRA distributions. 10a — 10b Taxable amount (see page 24). 10b
11a Total pensions and annuities. 11a — 11b Taxable amount (see page 25). 11b
12 Unemployment compensation (insurance) from Form(s) 1099-G. — 12
13a Social security benefits. 13a — 13b Taxable amount (see page 28). 13b
14 Add lines 7 through 13b (far right column). This is your **total income.** ▶ 14: 14,762

Step 5 Figure your adjusted gross income

15a Your IRA deduction from applicable worksheet. 15a
b Spouse's IRA deduction from applicable worksheet. *Note: Rules for IRAs begin on page 30.* 15b
c Add lines 15a and 15b. These are your **total adjustments.** — 15c
16 Subtract line 15c from line 14. This is your **adjusted gross income.** (If less than $20,264, see "Earned income credit" on page 38.) ▶ 16: 14,762

Step 6

Figure your standard deduction, exemption amount, and taxable income

17 Enter the amount from line 16. 17 14,762

18a Check if: ☐ You were 65 or older ☐ Blind ☐ Spouse was 65 or older ☐ Blind } Enter number of boxes checked ▶ 18a ☐

b If your parent (or someone else) can claim you as a dependent, check here ▶ 18b ☐

c If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 34 and check here ▶ 18c ☐

19 **Enter your standard deduction. See page 35 for the chart (or worksheet) that applies to you. Be sure to enter your standard deduction here.** 19 3,250

20 Subtract line 19 from line 17. (If line 19 is more than line 17, enter -0-.) 20 11,512

21 Multiply $2,050 by the total number of exemptions claimed on line 6e. 21 2,050

22 Subtract line 21 from line 20. (If line 21 is more than line 20, enter -0-.) This is your **taxable income**. ▶ 22 9,462

Step 7

Figure your tax, credits, and payments

If you want IRS to figure your tax, see the instructions for line 22 on page 36.

23 Find the tax on the amount on line 22. Check if from: ☑ Tax Table (pages 49–54) or ☐ Form 8615 (see page 36) 23 1,421

24a Credit for child and dependent care expenses. Complete and attach Schedule 2. 24a

b Credit for the elderly or the disabled. Complete and attach Schedule 3. 24b

c Add lines 24a and 24b. These are your **total credits**. 24c

25 Subtract line 24c from line 23. (If line 24c is more than line 23, enter -0-.) 25 1,421

26 Advance earned income credit payments from Form W-2. 26

27 Add lines 25 and 26. This is your **total tax**. ▶ 27 1,421

28a Total Federal income tax withheld. (If any is from Form(s) 1099, check here ▶ ☐ .) 28a 1,700

b 1990 estimated tax payments and amount applied from 1989 return. 28b

c **Earned income credit.** See page 38 to find out if you can take this credit. 28c

d Add lines 28a, 28b, and 28c. These are your **total payments**. ▶ 28d 1,700

Step 8

Figure your refund or amount you owe

29 If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you **overpaid**. 29 279

30 Amount of line 29 you want **refunded to you**. 30 279

31 Amount of line 29 you want **applied to your 1991 estimated tax**. 31

Attach check or money order on top of Form(s) W-2, etc. on page 1.

32 If line 27 is more than line 28d, subtract line 28d from line 27. This is the **amount you owe**. Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, address, social security number, daytime phone number, and "1990 Form 1040A" on it. 32

33 Estimated tax penalty (see page 42). 33

Step 9

Sign your return

Keep a copy of this return for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature: William B. Schuyler Date: 2/11/91 Your occupation: Student

Spouse's signature (if joint return, BOTH must sign) Date Spouse's occupation

Paid preparer's use only

Preparer's signature Date Check if self-employed ☐ Preparer's social security no.

Firm's name (or yours if self-employed) and address E.I. No. ZIP code

Grants Made Before August 17, 1986

If, in 1990, you received an amount from a scholarship or fellowship granted before August 17, 1986, you continue to figure the amount excludable from income under the same rules that were in effect in earlier years. The amount excludable depends on whether or not you were a candidate for a degree. If you have any questions on these rules, please contact the IRS.

Index

Automatic extension until June 15.....4
Blocked income.....3
Cancellation of student loan debt.....4
Candidate for a degree.....1
Christa McAuliffe Fellowships.....2
Credit for foreign taxes paid.....3
Deferrable income.....3
Dependent, student as a.....4
Deposit of foreign currency with disbursing officer.....3
Does your grant qualify.....2
Educational expenses.....2
Educational institution.....1
Estimated tax.....2, 5
Estimated tax payments.....3, 5
Expenses in connection with the grant.....2
Extensions of time to file.....4
Federal grants.....2
Fellowships.....1
Figuring estimated tax on nonconvertible foreign currency.....3
Figuring U.S. income tax.....4
Foreign earned income exclusion.....2
Form 2350.....4
Form 2688.....4
Form 4868.....4
Fulbright grantees.....3
  Payment of tax.....3
  Where to file.....4
Fulbright grants.....3
  Professors and teachers.....3
  Students and researchers.....3
Grants made before August 17, 1986.....12
How to report.....5
If your grant does not qualify.....2
Individuals abroad.....2
Loans.....2
Nonconvertible foreign currency (blocked income).....3
Payment of foreign taxes.....3
Payment of tax by Fulbright grantees.....3
Payment of U.S. income tax.....3
Qualified scholarship or fellowship.....1
Qualified tuition reduction.....2
Scholarships.....1
Service academy cadets.....2
Services, payment for.....1
Student loan debt, cancellation of.....4
Student loans.....2
Tax home.....2
When to file.....4
Where to file.....4